

US Recession and Recovery: Implications for Thailand and Southeast Asia

Philip Martin: plmartin@ucdavis.edu

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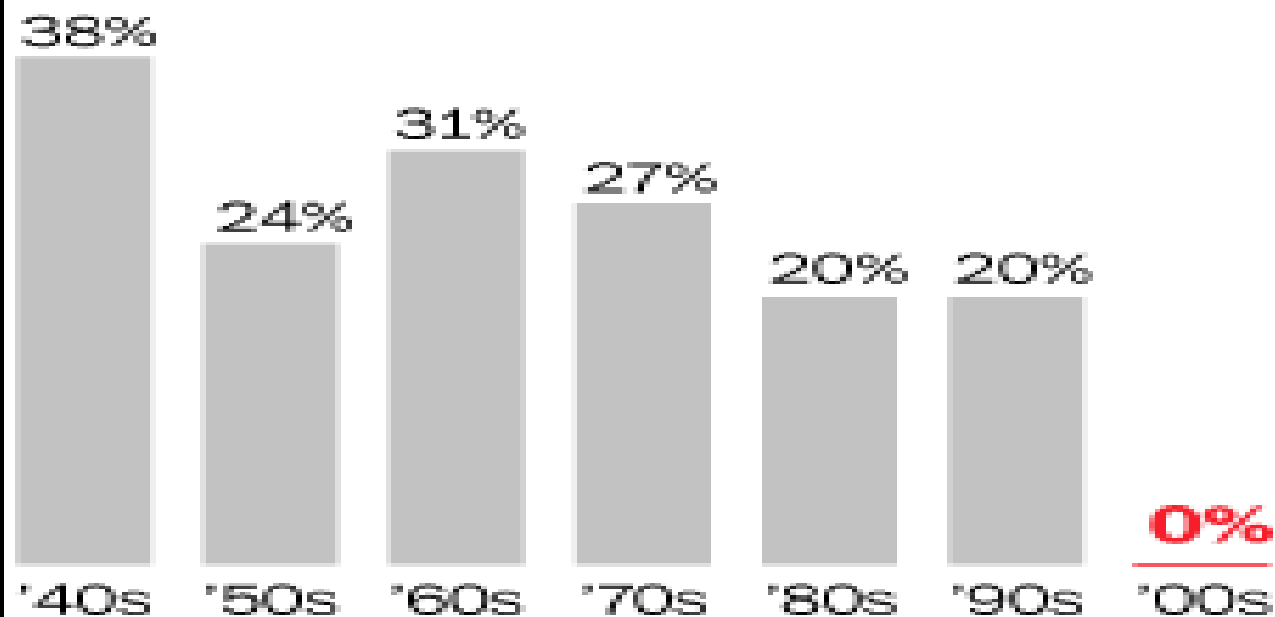
March 11, 2010

Highlights

- US economy: recovering from worst recession in decades with massive aid
- Private-sector employment fell 8 million between Dec 2007 and Dec 2009; Unemployment doubled to 10% (9.7%)
- 2010: from federal to private stimulus?
 - Stock market up, business confidence up, but banks slow to lend, slow to revise mortgages
 - Problems: state and local govt deficits as taxes down and spending up; some housing markets underwater (debt exceeds current house value)
 - Will Buy American & new frugality slow imports?

There was **zero net job creation** in the first decade of the new millennium, compared to healthy job growth in each of the previous six decades.

Job growth: percent change in payroll employment.*



*2000s extends through Nov. 2009

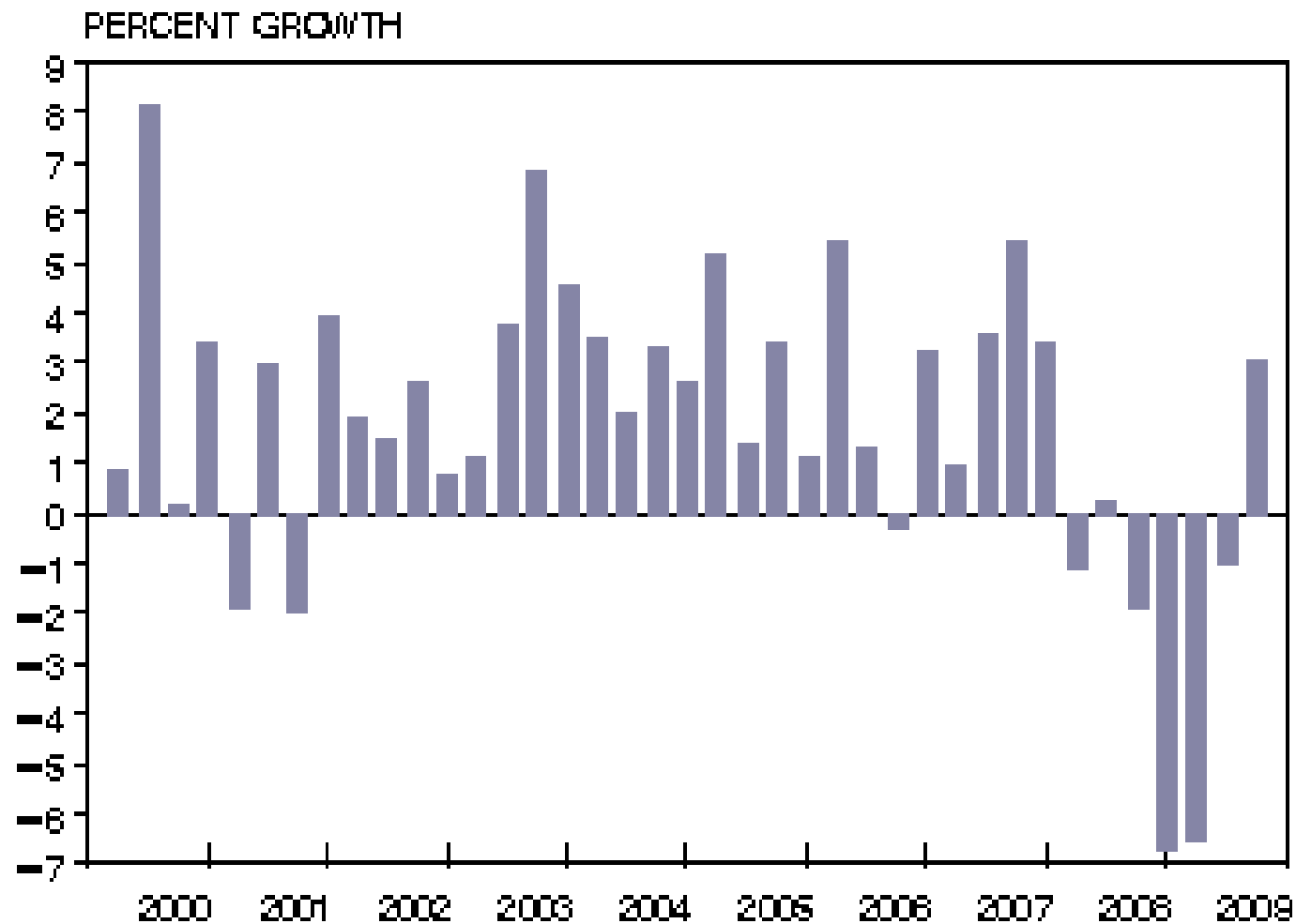
THE WASHINGTON POST

US Economy and Jobs

- Recession began December 2007
 - Stocks, GDP growth, house prices fell
 - Unemployment and government spending rose
 - Reversal of debt-financed consumer spending that fueled imports; savings up
- \$700 billion federal recovery package in 2008, \$787 billion in 2009, \$10 bil in 2010
- Private-sector employment fell by 8 million in 2008-09; public sector jobs stable

NIPA—REAL GROSS NATIONAL PRODUCT—CHAIN WEIGHTED

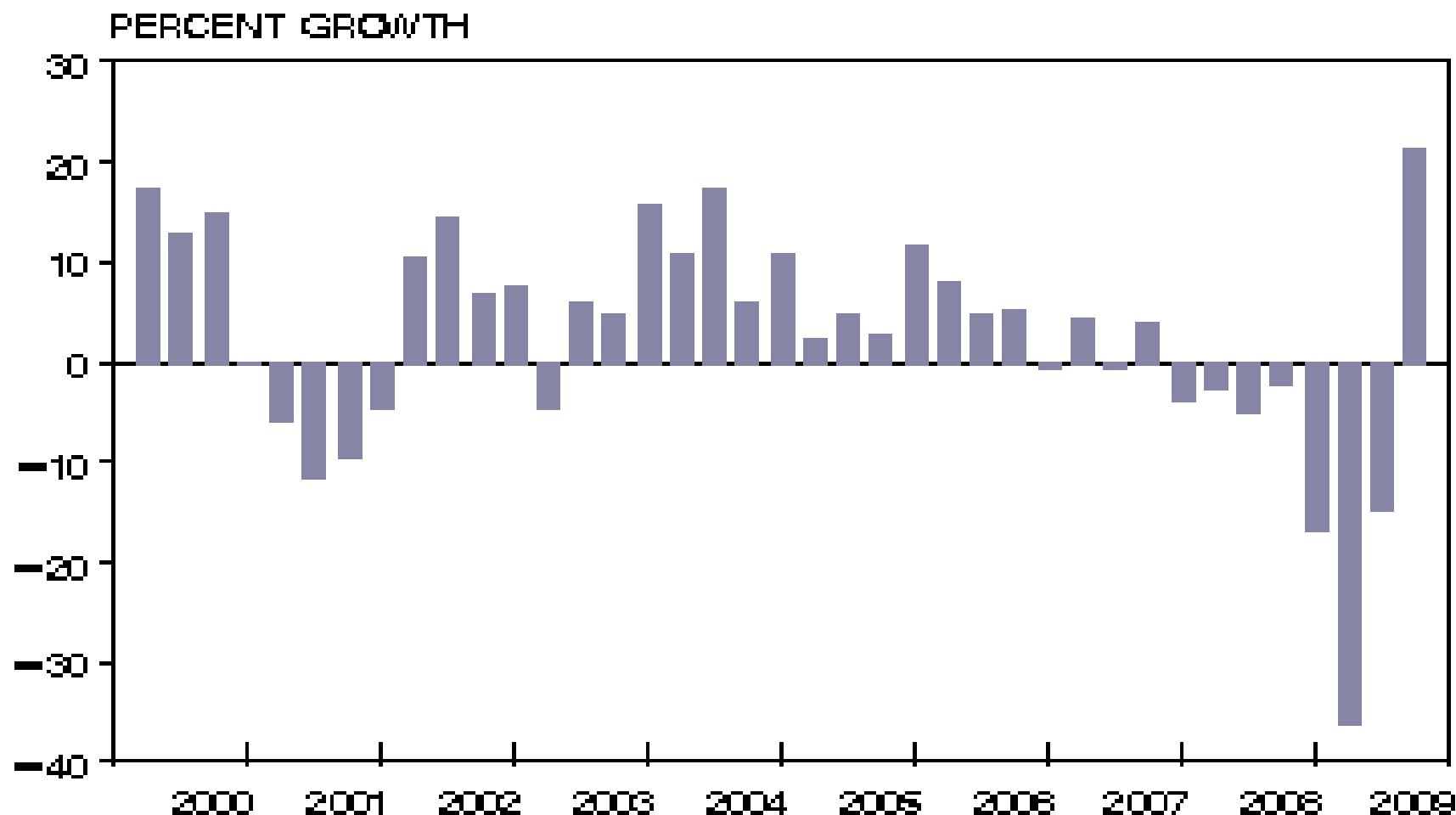
Q/Q ANN, SEASONALLY ADJUSTED, PERCENT GROWTH



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NIPA—REAL IMPORTS—CHAIN WEIGHTED

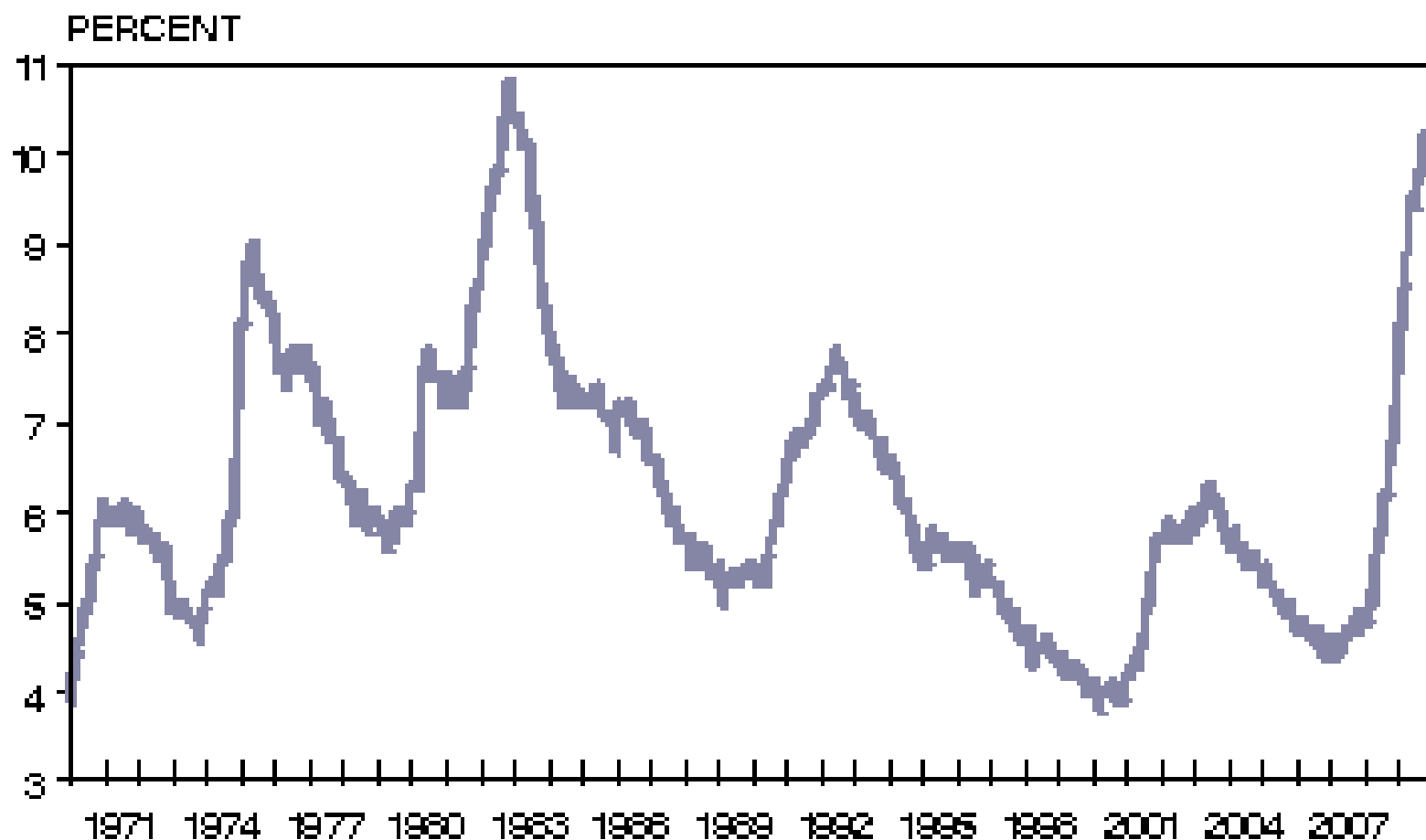
Q/Q ANN, SEASONALLY ADJUSTED, PERCENT GROWTH



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U.S. UNEMPLOYMENT RATE

MONTHLY, SEASONALLY ADJUSTED, PERCENT



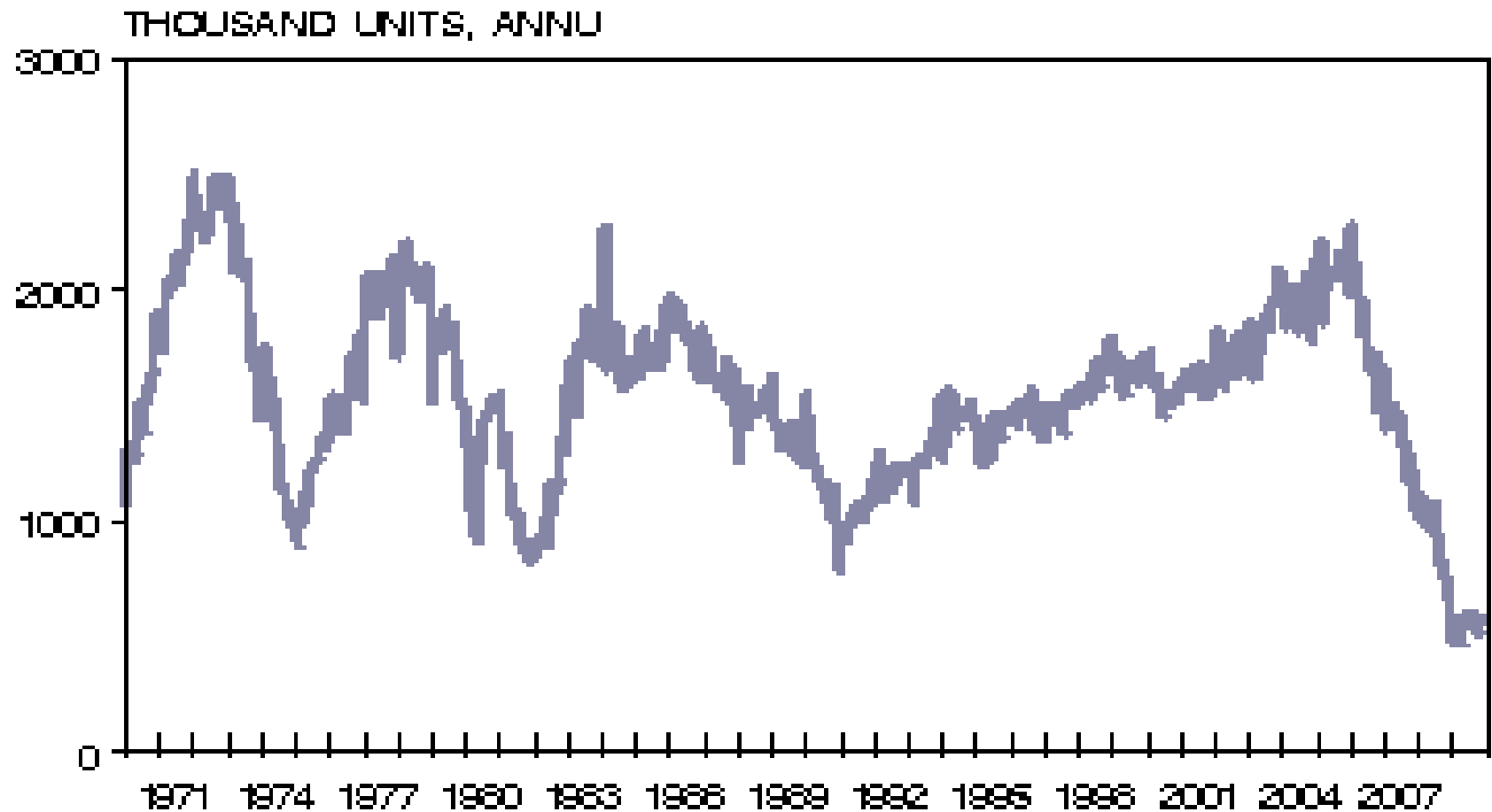
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Why Boom to Bust

- Low interest rates & pop growth = housing, consumption, & import booms
 - \$770 bil trade deficit in 2006--China, Japan, and Middle East oil exporters each bought almost \$1 billion/day of US debt
 - US home prices appreciate, new houses built “on spec.” US: from 1.5 million new housing starts a year in 2000-02 to almost 2 million a year in 2005-06
 - TV shows: Flip this house = buy and sell house without moving in; profit = price appreciation

U.S. HOUSING STARTS

MONTHLY, SEASONALLY ADJUSTED, THOUSAND UNITS, ANNUAL RATES

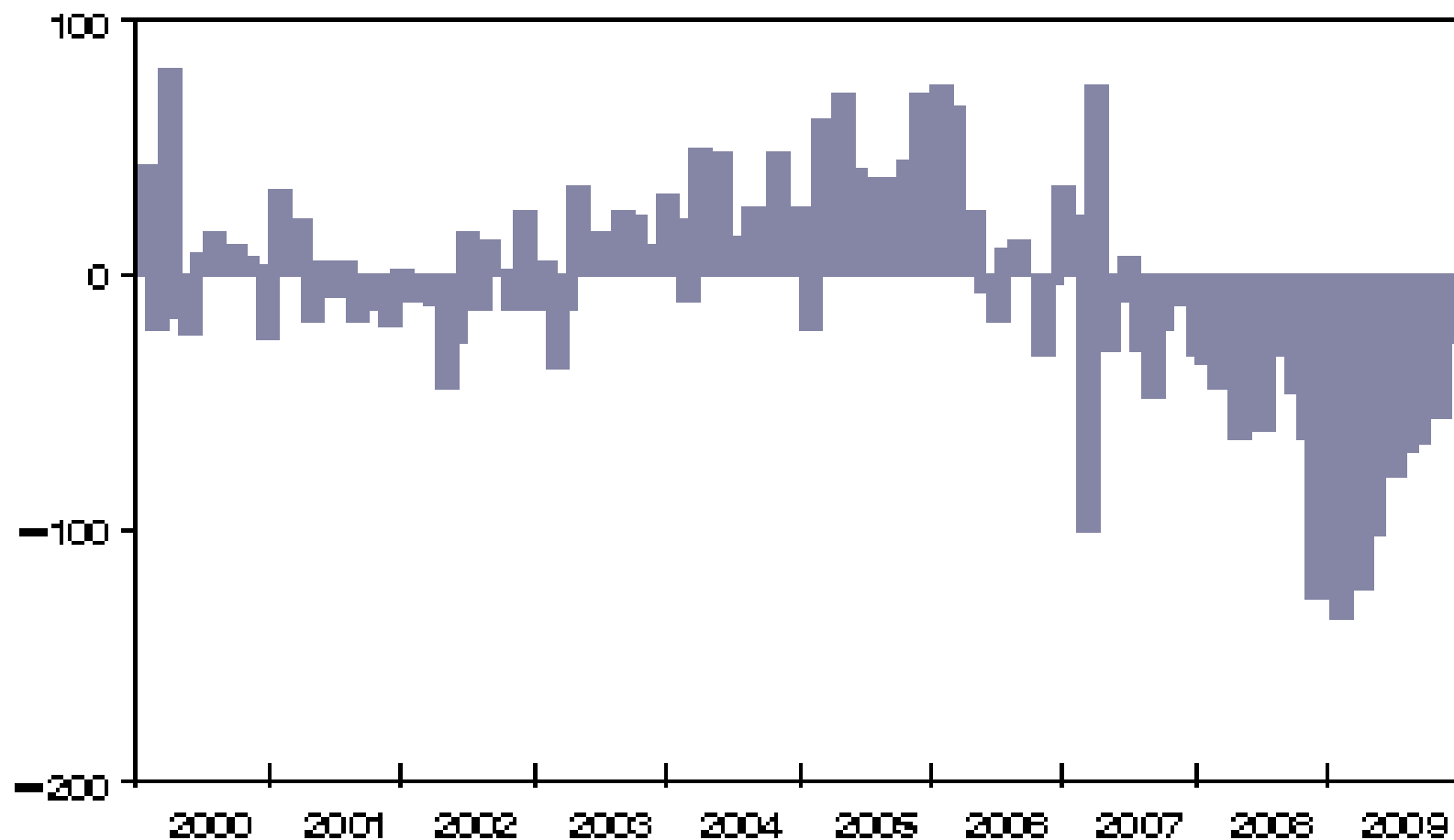


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U.S. PAYROLL EMPLOYMENT — CONSTRUCTION

CHANGE, SEASONALLY ADJUSTED, THOUSANDS OF PERSONS

THOUSANDS OF PERSONS



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Mechanics of Housing Boom

- Average US house price rose 1.5% per month in 2005-06
- Typical California house = \$500,000 for 3-bedroom, 2-bath, 1,800 sq feet (170 sq meters), good neighborhood & schools
- Value of house up 2% or \$10,000 per month; average salary \$5,000 per month
- Result: 2x more income from house price appreciation than work

Banking “Innovations”

- Old rule: buy house that costs up to 3x gross salary--earn \$100,000 year (2 earners) = max \$300,000 house; Put 10% down (buyer must save \$30,000)
- New Rule: No-money-down, no documentation of income (“liar loans”), adjustable interest rates and no more 1% rule: monthly payment = 1% of loan
- Subprime loans: people earning \$40,000 a year with uncertain jobs buy \$300,000 houses

Home Loans: unlock your wealth

- Mortgages (loans) begin locally, repackaged as CMOs, and sold to investors, who are repaid as home buyers make monthly payments
- Alan Greenspan : CMOs are safe; no need to regulate CMOs because there has never been a NATIONAL housing bubble, only local booms/busts
- Result: US housing and consumption booms were financed by 2nd and 3rd loans on existing homes (“unlock your wealth”)

Goldilocks Economy

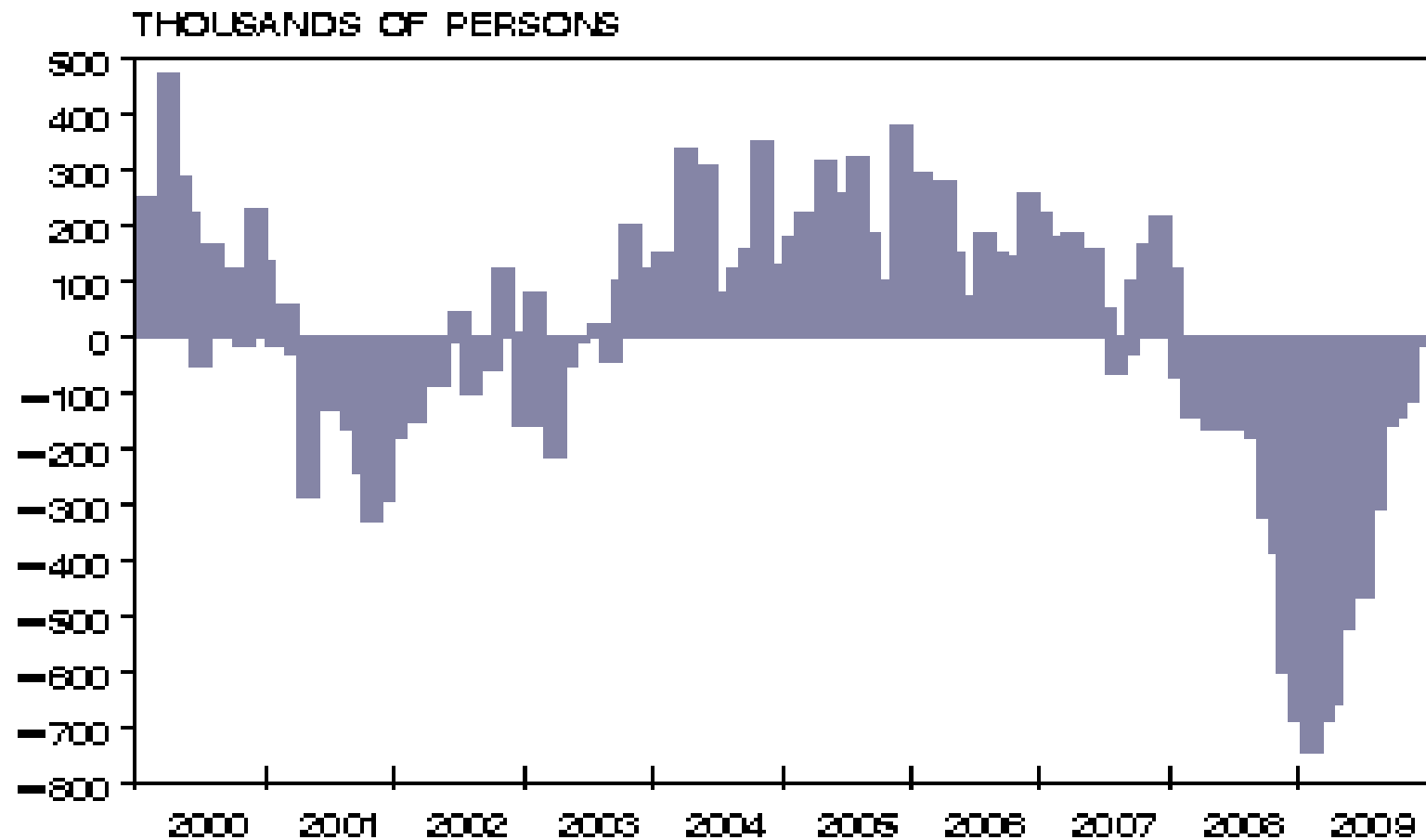
- Employment up 2003-2007, from 136 million to 146 million, up 2.5 million/year or 10,000 per work day (250 days)
- US unemployment rate below 5% (7 million jobless in 2006), Greenspan = the economic wise man
- Recession began in Dec 2007, down fast in 2008, was trough in March 2009?
- What shape recovery? V, U, W, L

US Job Machine in Reverse

- Employment down: 2007-2009, from 146.6 (11/07) to 138.5 (11/09), 8 million
 - January to April 2009, US lost 500,000 jobs a month, 20,000 a work day, all in the private sector; govt emp stays at 22 million
 - Layoffs dominate news, bankruptcies of icons such as GM, Chrysler etc
 - Workers make concessions on wages & especially health benefits (average \$3.50/hour paid by employers) to preserve jobs
- Greece, Ireland, UK, Spain also had

U.S. PAYROLL EMPLOYMENT — TOTAL NONFARM

CHANGE, SEASONALLY ADJUSTED, THOUSANDS OF PERSONS



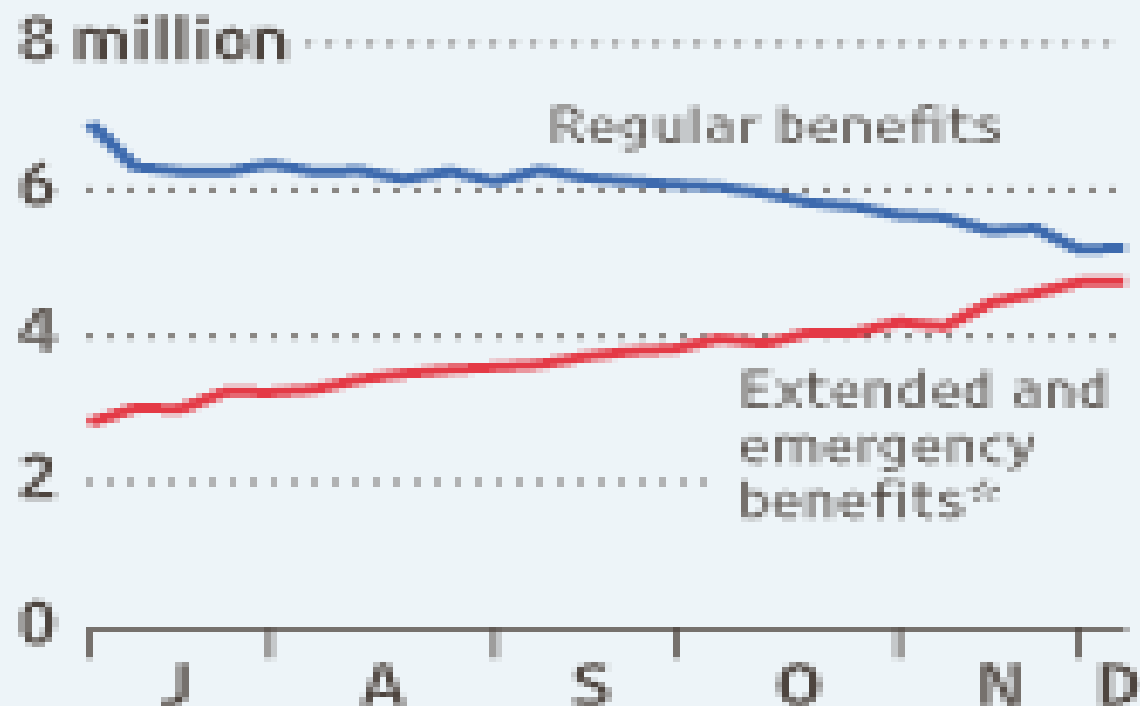
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US Domestic Priority 1: Jobs

- Economic recovery and job growth: 16 million unemployed, only 9.5 million get UI benefits—up to 99 weeks of benefits (usual = 26 weeks).
Another stimulus package?
 - WH Forum on Jobs and Economic Growth, 12/09 = infrastructure and green jobs (cash for caulkers)
 - Pessimism among those who lost jobs and homes to foreclosure—what implications for consumer-based economy?
 - Domestic mobility down—people cannot sell houses, and there are no boom areas attracting internal migrants
 - Should there be a 2010 stimulus package using bank-repaid funds?

Changing Rolls

Number of people drawing unemployment benefits



*Not seasonally adjusted

Source: Labor Department

US Domestic Priority 2: Health

- US spends \$2.5 trillion a year on health care (= British GDP), but (1) 46 million lacked health insurance sometime in 2008 and (2) US health outcomes are no better than countries that spend much less
 - Obama—expand health care coverage, reform US health care system to bend the cost curve down
 - House: Individual mandate to have insurance, employers pay or play, public option, extra cost = \$1.1 trillion 2011-19
 - Senate: Individual mandate to have insurance, employers pay or play, no public option, extra cost = \$871 billion 2011-19
 - Obama compromise—like Senate, but \$950 billion

US Domestic Priorities 3

- **Financial regulation:** how much more regulation to avoid another Wall Street meltdown; who should regulate? But, impetus to reform Wall Street decreases as economy recovers
- **Climate change:** China and US each emit about 20% of world's greenhouse gases (6 billion tons/year).
 - Goal—limit global warming to 2C or 3.6F by 2050
 - House approved American Clean Energy and Security Act (6/09) gives permits to emit to polluters, caps the number of pollution permits, and allows markets to set the price (estimate \$13 a ton in 2013)—what about imports?

US Economic Outlook

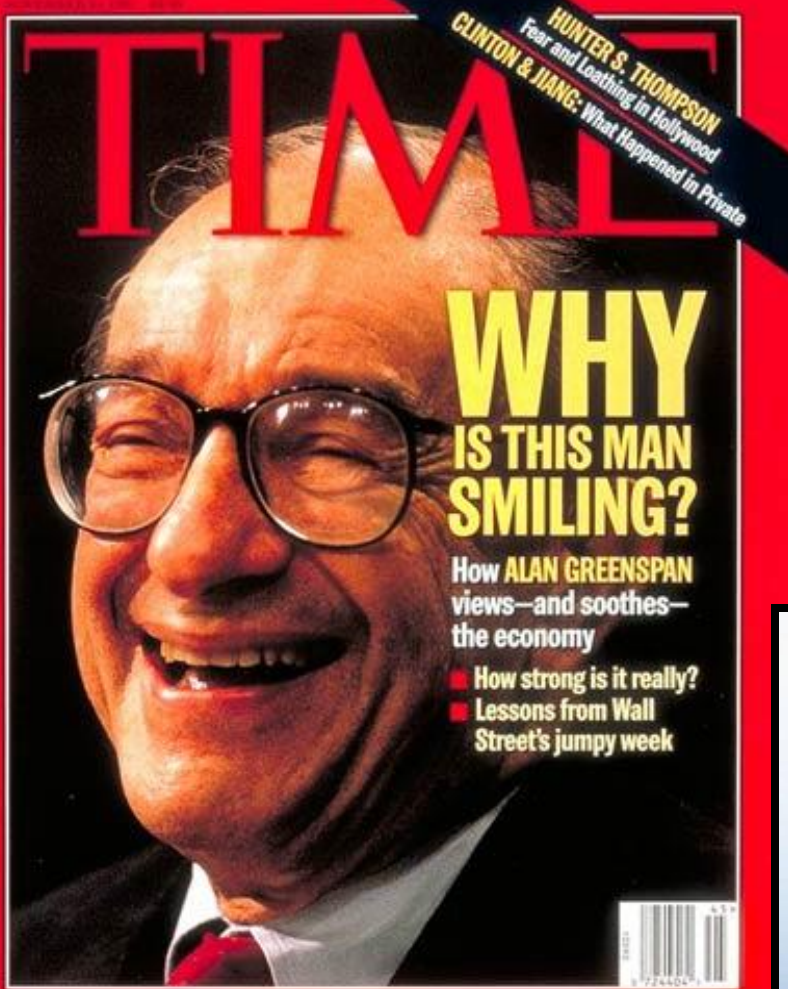
- Letter-nomics forecasting—which letter best describes recovery in 2010? V, W, U, L
- V—manufacturing up with inventory rebuilding, federal stimulus and low interest rates—economic policy working as expected
- W, U, L--persisting high unemployment, continued house price declines with more foreclosures, banks reluctant to lend
- Can US avoid Japan-style lost decade?
 - Will/can **consumers** shift from saving to spending?
 - Will/can **government** continue to stimulate economy with deficit spending; can Fed raise interest rates?
 - Will/can business **invest** to satisfy US and foreign demand
 - Will/can US continue to run a **trade** deficit?

Implications for Thailand 1

- Small 2010 federal stimulus package—less USG stimulus, but also no debate over more Buy American clauses
- Pessimism among those who lost jobs and homes:
 - End of 30 years of consumer spending rising faster than GDP?
 - The new frugality? Newspaper stories emphasize experiences rather than goods & services, such as hobbies or cooking rather than buying goods. Museum and movie attendance up in 2009; shopping down
- Domestic mobility down—no boom areas to attract internal migrants; estimated 16 million homes are worth less than mortgage debt on them
- Who will buy the consumer goods exported from Thailand and Southeast Asia?

Implications for Thailand 2

- Is 2008-09 a (1) temporary lull or (2) end of the foreign-investor driven, export-led Asian economic model--if US consumption falls?
- US hopes:
 - Asian currencies appreciate, reducing Asian exports and attracting more US imports
 - Asians save less and consume more—domestic consumption replaces exports
 - Result: Asia shifts from export-led growth to growth based on local consumption of goods and services, including imports from the US
- Can Thais and other Asians change from savers to spenders?





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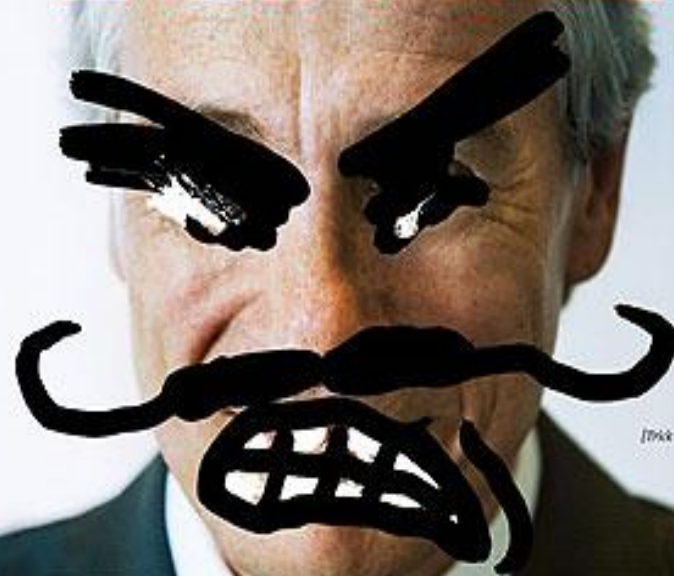
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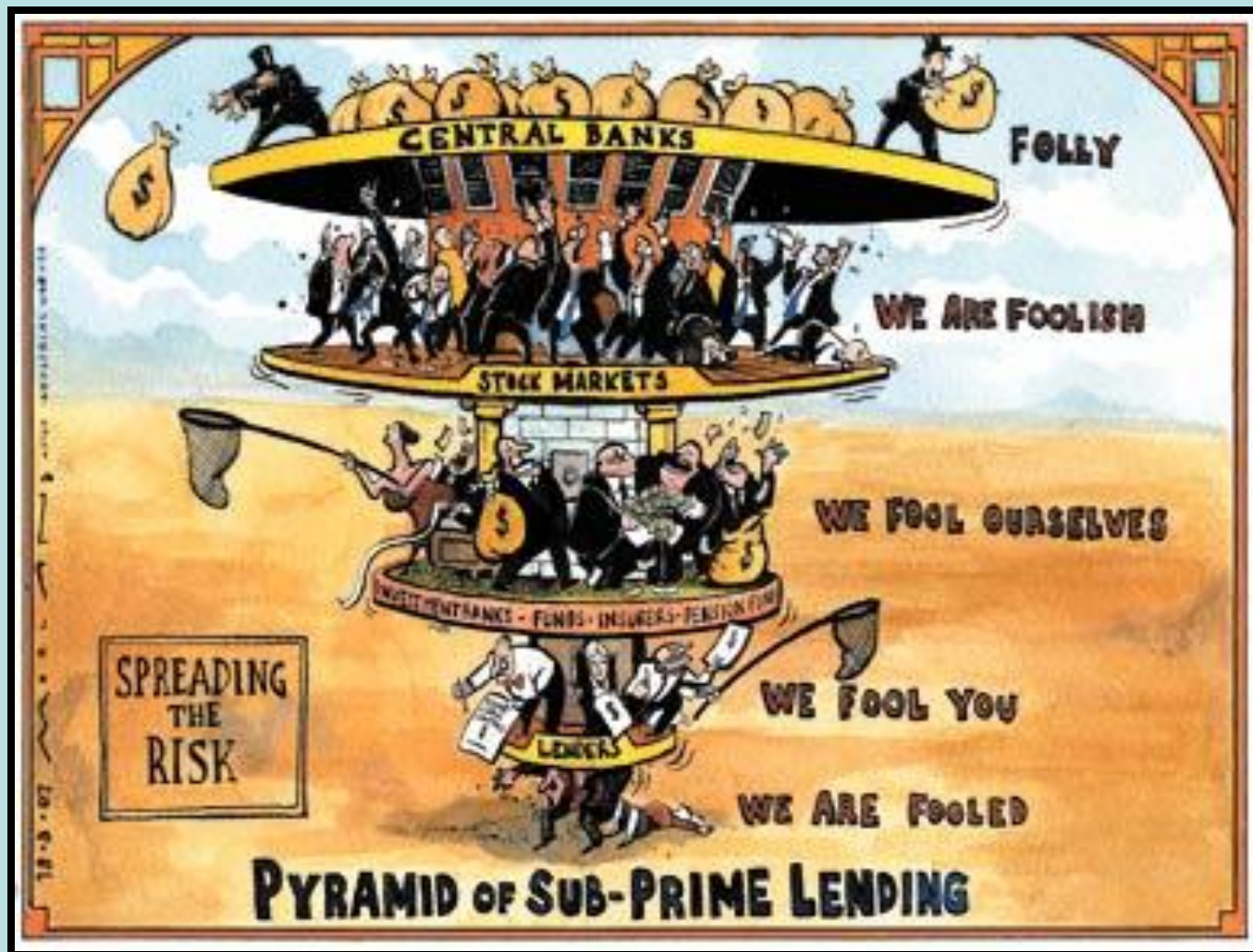


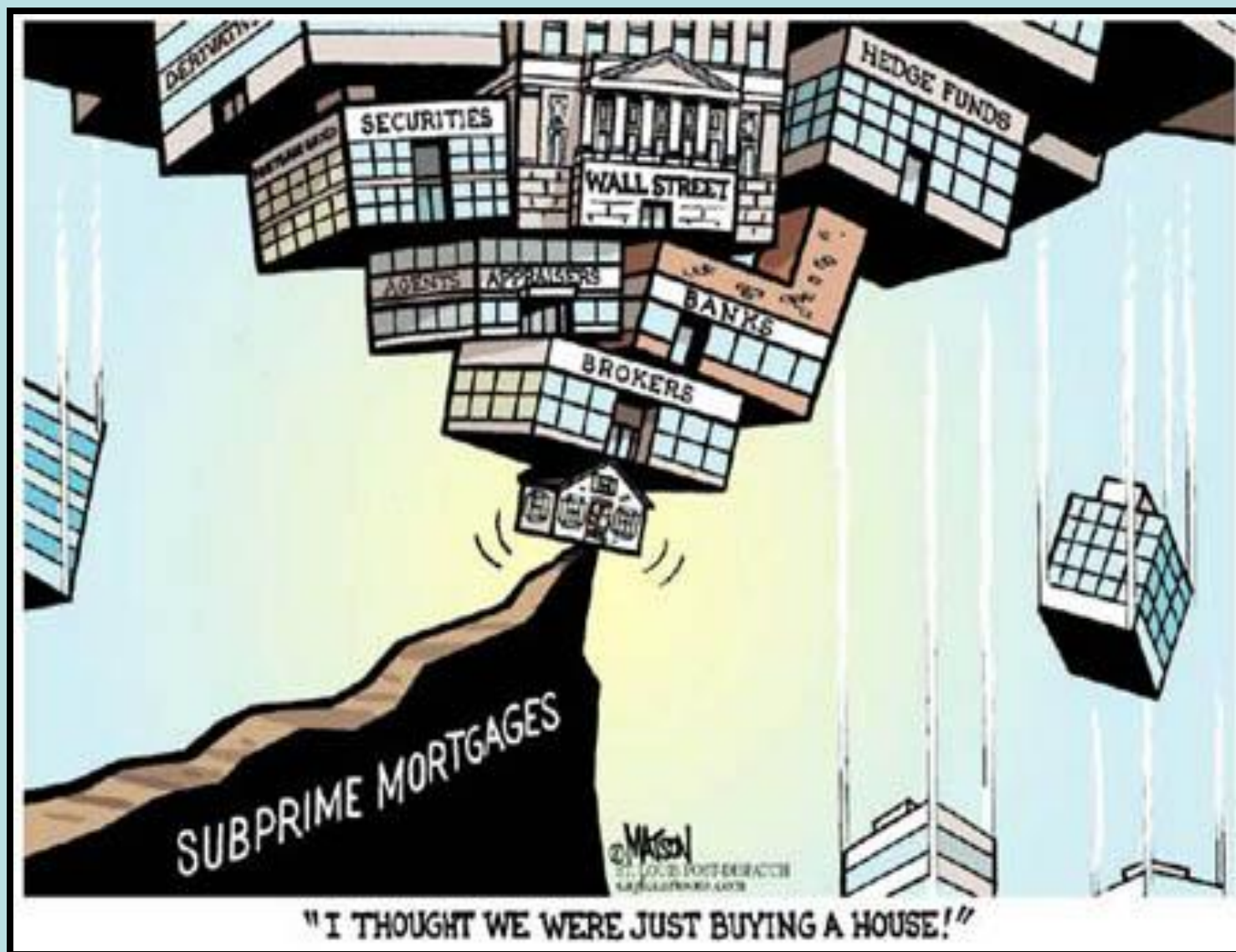


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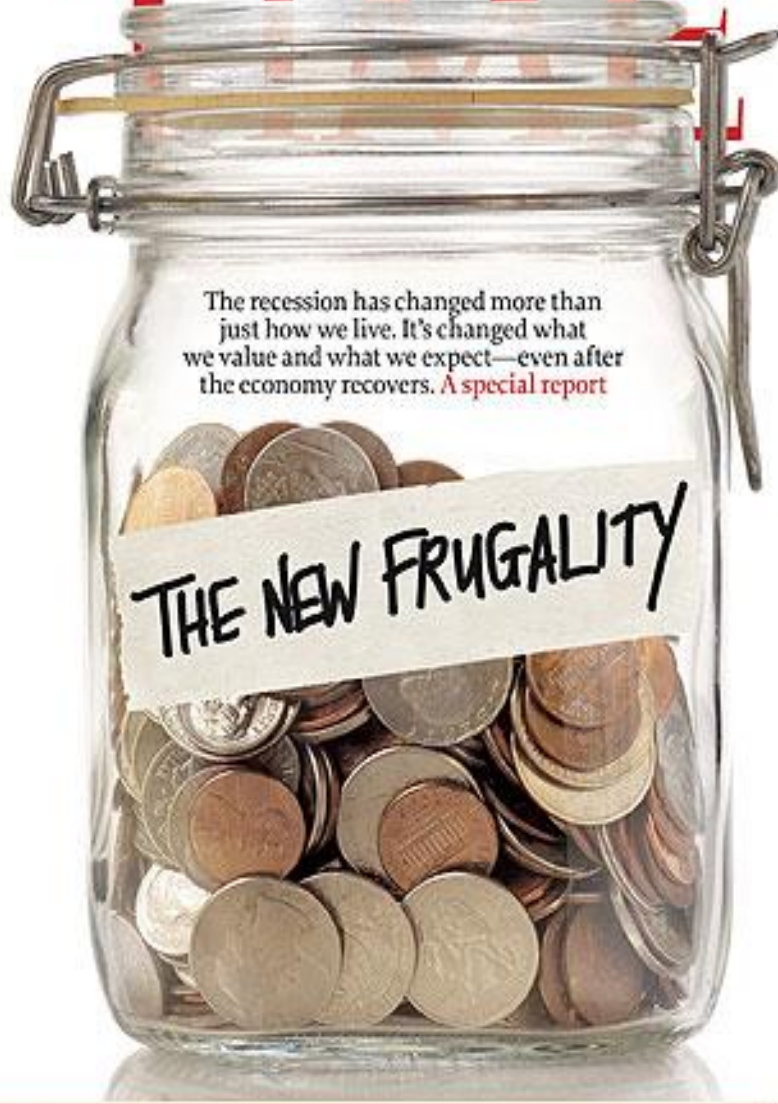
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